EARLY RETIREMENT AND THE NEW EMPLOYEE

Currently, Washington's pension plans are well funded, as the chart below from the Pew Center indicates. However, the future presents funding challenges as investment losses from 2009 are recognized in the system valuations and contributions are expected to rise.

Given this future environment**,** there are actions that can mitigate the challenges. Full funding of the pension systems now and in the future, adjusting benefits for future employees, and increasing the likelihood that investment returns match funding assumptions, would all improve the future cost of public pensions.

While the budget fully funds the pension contributions required, this proposal addresses the other two actions by making the following changes.

First, it provides new members of PERS, TRS and SERS with an option to retire early after thirty years by accepting a reduction of five percent for each year of retirement before age 65. New employees would not have access to the early retirement options passed in 2000 or 2007, but instead would only have the reduction described above. It provides significant savings to public employers and taxpayers over the next 25 years—approximately $1.3 billion. Under this proposal, the benefit of a future thirty year employee who retires at age 55 would be reduced by fifty percent, whereas under current law that same employee could retire with only a twenty percent reduction.

Second, it lowers the long-term assumed investment rate of return by one tenth of one percent each biennia for the next three biennia, for all systems save LEOFF Plan 2. This would gradually lower the rate from the current eight percent to 7.7 percent beginning July 1, 2017. It would also require the actuary to study the financial condition of the systems after these changes are made and present the findings to the Pension Funding Council. This adjustment of the rate will provide greater certainty that funding assumptions will match actual investment returns.

Since 2007, policy makers in Washington have made significant progress bending the future cost curve of public pensions (see chart below). This proposal, combined with the earlier elimination of gain sharing and annual increases to Plan 1 retirees, will save public employers approximately $11 billion over the coming decades and maintains Washington's status as a leader in pension sustainability while balancing the needs of the future workforce.